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Attorneys for Plaintiffs and Counterdefendants  
LUXE INTERNATIONAL INC., LUSSORI, INC.  
and VIALUXE INC.

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN JOSE DIVISION

LUXE INTERNATIONAL INC., a Delaware  
corporation; LUSSORI, INC., a Delaware  
corporation; and VIALUXE INC., a Delaware  
corporation,

Plaintiffs,

v.

JOHN MADSEN, an individual, and Does 1  
through 10,

Defendants.

AND RELATED COUNTERCLAIMS

CASE NO. 08-CV-02241 JF

PLAINTIFFS AND COUNTERDEFENDANTS'  
REPLY TO COUNTERCLAIMS

Plaintiffs and counterdefendants Luxe International Inc., Lussori, Inc. and Vialuxe  
Inc. ("Plaintiffs") reply to the counterclaims brought by defendant and counterclaimant John  
Madsen ("Madsen") as follows:

1. Plaintiffs lack knowledge or information sufficient to form a belief  
regarding the truth of the allegations of paragraph 1, and on that basis deny each and every

1 allegation of that paragraph.

2           2.       Plaintiffs admit the allegations of paragraph 2.

3           3.       Plaintiffs admit that Madsen's employment terminated in April 2007.  
4 Plaintiffs lack knowledge or information sufficient to form a belief regarding the truth of the  
5 remaining allegations of paragraph 3, and on that basis deny those remaining allegations.

6           4.       Plaintiffs admit that on April 16, 2008, they sent the letter attached to  
7 Madsen's counterclaims as Exhibit A. Plaintiffs deny the remaining allegations of paragraph 4.

8           5.       Plaintiffs deny the allegations of paragraph 5.

9           6.       Plaintiffs deny the allegations of paragraph 6.

10          7.       Plaintiffs deny the allegations of paragraph 7.

11          8.       Plaintiffs deny the allegations of paragraph 8.

12          9.       Plaintiffs admit that they sent the letter attached to Madsen's  
13 counterclaims as Exhibit B to Swiss Watch Gallery. Plaintiffs deny the remaining allegations of  
14 paragraph 9.

15          10.      Plaintiffs deny the allegations of paragraph 10.

16          11.      In answer to the allegations of paragraph 11, Plaintiffs restate the answers  
17 contained in paragraphs 1 through 10 respectively and incorporate those answers by reference.

18          12.      Plaintiffs admit that on April 16, 2008, they sent the letter attached to  
19 Madsen's counterclaims as Exhibit A. Plaintiffs deny the remaining allegations of paragraph 12.

20          13.      Plaintiffs deny the allegations of paragraph 13.

21          14.      Plaintiffs deny the allegations of paragraph 14.

22          15.      Plaintiffs deny the allegations of paragraph 15.

23          16.      Plaintiffs admit that they sent the letter attached to Madsen's  
24 counterclaims as Exhibit B to Swiss Watch Gallery. Plaintiffs deny the remaining allegations of  
25 paragraph 16.

26          17.      Plaintiffs deny the allegations of paragraph 17.

27          18.      The remaining paragraphs in the counterclaims, as well as the paragraphs  
28 located at page 9, lines 18-20 and page 11, lines 4-6, constitute Madsen's prayer for relief to

1 which no answer is required. To the extent that the prayer for relief purports to state any factual  
2 allegations, Plaintiffs deny them.

3 **AFFIRMATIVE DEFENSES**

4 As separate and distinct affirmative defenses to Madsen's alleged counterclaims,  
5 Plaintiffs allege as follows:

6 **First Affirmative Defense**

7 (Failure to State a Claim)

8 1. Madsen's purported counterclaims fail to state facts sufficient to constitute  
9 claims upon which relief can be granted.

10 **Second Affirmative Defense**

11 (Unclean Hands)

12 2. Madsen's purported counterclaims are barred in whole or in part by the  
13 doctrine of unclean hands.

14 **Third Affirmative Defense**

15 (Right to Amend)

16 3. Plaintiffs reserve the right to rely on all further affirmative defenses that  
17 become available or appear during discovery proceedings in this action, and further reserve the  
18 right to amend this Reply for the purpose of asserting any such additional affirmative defenses.

19 WHEREFORE, Plaintiffs pray that Madsen's counterclaims for declaratory relief  
20 be denied, for their attorneys' fees and costs incurred in this action, and for such other relief as  
21 the Court may deem just and proper.

22 Dated: June 24, 2008

LATHAM & WATKINS LLP

23  
24 By: /s/ Jennifer L. Barry  
Perry J. Viscounty  
Jennifer L. Barry

25  
26 Attorneys for Plaintiffs  
and Counterdefendants  
27 LUXE INTERNATIONAL INC.,  
LUSSORI, INC. and VIALUXE INC.  
28

**CERTIFICATE OF SERVICE**

I certify that on June 24, 2008, I electronically transmitted the attached document to the Clerk's Office using the CM/ECF System.

I further certify that on this same date, I caused the attached document to be sent via overnight delivery as a courtesy copy to:

Hon. Jeremy Fogel  
United States Courthouse  
280 South 1st Street  
San Jose, CA 95113

I further certify that on this same date, I caused the attached document to be sent via regular U.S. mail to:

John Madsen  
3223 Donner Way, #2B  
Sacramento, CA 95817

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct. Executed on June 24, 2008.

/s/ Jennifer L. Barry

Jennifer L. Barry